DRAFT

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Item #14 (Rev. 1)
ID #13175

ENERGY DIVISION **RESOLUTION E-4660**
August 28, 2014

REDACTED

<u>R E S O L U T I O N</u>

Resolution E-4660. Pacific Gas and Electric Company (PG&E) requests approval of its revised Greenhouse Gas Procurement Plan.

PROPOSED OUTCOME:

- Approve PG&E's proposed updates to the Greenhouse Gas (GHG) Procurement Plan related to the electric utility side of PG&E's business.
- Reject PG&E's proposed updates to the GHG Procurement Plan that expand GHG procurement activities to the natural gas utility, because those activities are currently being addressed under a separate Commission proceeding.

SAFETY CONSIDERATIONS:

- This Resolution makes small changes to PG&E's strategy for procuring Greenhouse Gas compliance instruments that create no foreseeable safety impact.

ESTIMATED COST:

- The proposed changes to PG&E's Procurement Plan are intended to reduce the cost to ratepayers of Greenhouse Gas compliance, but it is not possible to quantify any savings.

By Advice Letter 4331-E Filed on December 20, 2013.

<u>SUMMARY</u>

This resolution approves proposed updates to PG&E's Greenhouse Gas (GHG) Procurement Plan related to the electric utility side of PG&E's business and rejects PG&E's proposed updates to the GHG Procurement Plan that

expand GHG procurement activities to the natural gas utility. Additionally, PG&E shall revise its current Direct Compliance Obligation Purchase Limit.

PG&E is proposing to modify its GHG Procurement Plan, a component of its long-term procurement plan, to:

1. Include PG&E's GHG obligations as a supplier of natural gas;
2. Add a GHG purchase limit applicable to natural gas; and
3. Change certain elements of PG&E's bundled procurement plan to reflect current regulatory and market conditions. These changes are described in Confidential Appendix A.

As described in Confidential Appendix A, PG&E's proposed updates related to the electric utility side of PG&E's business are consistent with Commission decisions and the Cap-and-Trade Program.

PG&E's proposed updates that expand its GHG obligations and procurement activities to the natural gas side of its business are inconsistent with Commission policy. The Commission recognizes the need for natural gas investor-owned utilities to have the authority to procure GHG compliance instruments. However, there is an open proceeding to address this issue. PG&E shall use Rulemaking (R.) 14-03-003 as a venue to address the rules associated with its GHG compliance obligation as a natural gas utility.

As described in Confidential Appendix A, PG&E shall update its Direct Compliance Obligation Purchase Limit to account for its current forecasted compliance obligation.

PG&E shall revise and resubmit its GHG Procurement Plan and associated workpapers in conformance with this resolution via a Tier 1 Advice Letter no later than 30 days from the Resolution effective date.

BACKGROUND

Greenhouse Gas Cap-and-Trade Program
The Global Warming Solutions Act of 2006, Assembly Bill (AB) 32,[1] granted the California Air Resources Board (ARB) authority to regulate California's greenhouse gas (GHG) emissions. In response to AB 32, ARB established an economy-wide Cap-and-Trade Program[2] to cap major sources of GHG emissions. The goal of the program is to reduce emissions to 1990 levels by 2020.

Beginning January 1, 2013, the Cap-and-Trade Program covered operators of facilities that annually emit at least 25,000 metric tons of carbon dioxide equivalent gas ($MTCO_2e$) and first deliverers of electricity. California's investor-owned electric utilities are covered under this first phase of Cap-and-Trade, covering years 2013-2014. Beginning January 1, 2015, the Cap-and-Trade Program will expand to include natural gas utilities, among others. Entities covered under Cap-and-Trade must use allowances and offsets ("compliance instruments") to account for their emissions.

Each quarter, ARB holds a Current Auction in which participants bid on allowances for current and previous years' compliance. Each participant may submit multiple bids, each consisting of a quantity of allowances and a bid price. ARB also holds an Advance Auction in each quarter, where one quarter of the allowances allocated from the budget year three years subsequent to the current calendar year are designated for sale.[3] The allowance purchase limit for electric utilities is 40 percent of the allowances offered for auction, and will decrease to 25 percent on January 1, 2015.

For each auction, bids are ranked from high to low. "Entities submitting bids at each price will be sold allowances until: (A) The next lower bid price is less than the auction reserve price, in which case the current price becomes the auction

[1] Statutes of 2006, Chapter 488.

[2] California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms, Title 17, California Code of Regulations, Sections 95801-96022.

[3] Ibid. Section 95910.

settlement price; or (B) The total quantity of allowances contained in the bids at the next lower bid price is greater than or equal to the number of allowances yet to be sold, in which instance, the next lower bid price becomes the auction settlement price" and ARB resolves the tie bids. [4]

To protect against the possibility of high market prices, ARB developed the Allowance Price Containment Reserve (APCR).[5] The APCR gives covered entities access to an extra reserve of allowances at a set price of $40[6] (increasing annually) to hedge against higher costs that might otherwise prevail. The APCR effectively places a cap on the price a covered entity must pay per allowance.

Long-Term Procurement Planning
The Commission's Long-Term Procurement Proceedings (LTPPs) aim to ensure a reliable and cost-effective electricity supply in California. As part of the LTPP, the electric investor-owned utilities (IOUs) are responsible for submitting procurement plans that project their resource needs and their action plans for meeting those needs, over a ten-year horizon.

Decision (D.) 12-04-046, in Ordering Paragraph 9, states that when the electric utilities update their long-term procurement plans in accordance with the procurement rules defined in the decision, they provide a forecast of the maximum number of GHG compliance instruments needed to meet their compliance obligations.

---

[4] No allowances will be sold at bids lower than the auction reserve price, which was $10.00 per allowance for 2012 and increases each year. As defined by ARB in Section 95910, the reserve price, or auction floor price, increases each year by 5 percent plus the rate of inflation as measured by the most recently available twelve months of the Consumer Price Index for All Urban Consumers.

[5] California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms, Title 17, California Code of Regulations, Section 95913.

[6] The APCR has three tiers with an equal number of allowances in each tier. In 2013, prices per allowances are $40, $45, and $50 for tiers one, two, and three, respectively. Each year, the prices increase by five percent plus the rate of inflation as measured by the most recently available twelve month value of the Consumer Price Index for All Urban Consumers.

Pursuant to D.12-04-046, PG&E filed supplemental Advice Letters 4026-E-A on May 21, 2012 and 4026-E–B on August 31, 2012 to incorporate modifications to its bundled procurement plan (BPP). On October 11, 2012, the Commission issued Resolution E-4544 to approve PG&E's updated BPP. The BPP includes, as Appendix L, the GHG Procurement Plan. On September 30, 2013, PG&E filed Advice Letter 4290-E to update the GHG Purchase Limit in its GHG Procurement Plan. These modifications became effective on January 1, 2014 via Commission disposition.

Electric Utility Procurement of Greenhouse Gas Compliance Instruments
As part of the LTPP, D. 12-04-046 authorizes electric utilities to procure greenhouse gas compliance instruments. The decision further defines (1) which types of compliance instruments the utilities are authorized to procure; (2) how and where the utilities procure them; and (3) the quantities they may procure.

The decision authorizes the following compliance instruments:

- Allowances;
- Allowance futures and forwards; and
- ARB-certified offsets and offset forwards to meet no more than 8% of their compliance obligation.

The utilities may procure compliance instruments on ARB-approved exchanges or other exchanges that the Commission has previously approved for power procurement. Prior to purchasing compliance instruments on an exchange not previously approved by the Commission, the utilities must submit a Tier 2 Advice Letter.

The decision also specifies formulas to determine the Direct Compliance Obligation Purchase Limits and Financial Exposure Purchase Limits.

Natural Gas Utility Procurement of Greenhouse Gas Compliance Instruments
Under R.14-03-003, the Commission is currently considering rules and policies necessary for natural gas IOUs to comply with the Cap-and-Trade Program. The Order Instituting Rulemaking (OIR) identified several issues related to Cap-and-Trade compliance that could be included in the scope of the rulemaking, including recovering compliance costs; rules for purchasing compliance instruments; cost forecasting; and use of allowance revenues.

As provided for in the OIR, parties filed opening prehearing conference statements and reply statements on April 10, 2014 and April 17, 2014, respectively. Several parties commented[7] that the natural gas IOUs need Commission authority to procure GHG compliance instruments, and have requested the Commission grant this authority by September 2014.

NOTICE

Notice of Advice Letter 4331-E was made by publication in the Commission's Daily Calendar. PG&E states that a copy of the Advice Letter was mailed and distributed in accordance with Section 4 of General Order 96-B.

PROTESTS

There were no protests filed for Advice Letter 4331-E.

DISCUSSION

PG&E requests approval of proposed modifications to its Greenhouse Gas (GHG) Procurement Plan.

On December 20, 2013, PG&E filed Advice Letter 4331-E to seek Commission approval of its updated GHG Procurement Plan by June 26, 2014. The Advice Letter includes a copy of the GHG procurement plan, with the following proposed modifications:

1. Includes PG&E's GHG obligations as a supplier of natural gas. PG&E is proposing updates to the BPP to reflect modifications to the Cap-and-Trade regulation pertaining to natural gas suppliers. The BPP would be modified to include a description of PG&E's Cap-and-Trade compliance obligation as a natural gas supplier and details about ARB regulatory

---

[7] Southern California Gas Company, San Diego Gas & Electric Company, Southwest Gas Corporation, and the Office of Ratepayer Advocates argue that the natural gas utilities do not currently have the authority to procure GHG compliance instruments, and that the Commission shall determine procurement policies in R.14-03-003.

requirements concerning its natural gas supplier allowance allocations and consignment requirements.

2. Adds a GHG purchase limit applicable to natural gas. Consistent with D.12-04-046, the GHG Procurement Plan establishes a Direct Compliance Obligation Purchase Limit to set overall volume limits for PG&E's GHG product procurement tied to its actual and forecasted GHG emissions. In the proposed GHG Procurement Plan changes, PG&E proposes a separate and distinct formula, analogous to the formula applicable to its existing GHG compliance obligation, to limit PG&E's GHG product procurement associated with PG&E's net natural gas compliance obligation or the "Net Natural Gas Compliance Obligation Purchase Limit." The sum of the Direct Compliance Obligation Purchase Limit and the Net Natural Gas Compliance Obligation Purchase Limit formula will set the maximum amount of GHG Products that PG&E may purchase to fulfill its compliance obligation as a regulated entity under the Cap-and-Trade Program.
3. Reflects current regulatory and market conditions. PG&E proposes general updates to BPP language reflecting adopted and proposed changes to the Cap-and-Trade Regulations subsequent to PG&E's Advice Letter 4026-E-A filing on August 31, 2012. In addition, PG&E is proposing to update elements of the GHG Procurement Strategy consistent with the authority provided to it by D.12-04-064.

Additionally, PG&E is proposing to update certain confidential elements of its GHG Procurement Plan, as described in Confidential Appendix A.

Energy Division evaluated the proposed revisions to PG&E's GHG Procurement Plan based on the following criteria:

- Consistency with California Air Resources Board's Cap-and-Trade Regulation, as modified on April 25, 2014;
- Consistency with D.12-04-046, which authorized electric utilities to procure GHG compliance instruments; and
- Consistency with R.14-03-003, an open proceeding to consider rules and policies necessary for natural gas IOUs to comply with the Cap-and-Trade Program.

Consistency with current Cap-and-Trade Regulation
As provided for in the Cap-and-Trade regulation, beginning in 2015, PG&E's natural gas business will have a Cap-and-Trade compliance obligation[8] for which it will need to procure compliance instruments. The majority of PG&E's proposed modifications to its GHG procurement plan are non-substantive changes that account for the implementation of Cap-and-Trade Program activities and updates to ARB Regulations that have transpired since the previous procurement plan was approved.

When PG&E submitted this Advice Letter, ARB had developed proposed revisions to the Cap-and-Trade regulation, which PG&E refers to as "Proposed Amendments." On April 25, 2014, ARB approved these proposed regulations without modification. The substance of PG&E's proposed revisions to its GHG Procurement Plan is consistent with current Cap-and-Trade regulation. However, PG&E should update some language to reflect ARB's recent approval of the amendments, as they are approved and no longer "proposed."

Consistency with D.12-04-046
As part of the LTPP for electricity supply in California, D. 12-04-046 orders the electric IOUs – PG&E, Southern California Edison, and San Diego Gas & Electric Company – to update their long term procurement plans in accordance with the decision. PG&E argues that it is updating its procurement plan to account for its obligation as a natural gas supplier because the procurement plan covers all of PG&E's obligations for all emissions subject to Cap-and-Trade. Additionally, it argues that ARB considers PG&E to be a single entity under Cap-and Trade Regulation, rather than one entity with an electric sector obligation and another entity with a natural gas sector obligation.

D.12-04-046 does not address natural gas utilities; therefore it should not direct PG&E to update its procurement plan to account for natural gas-related activities. PG&E's inclusion of its Cap-and-Trade obligation as a natural gas supplier in its long-term procurement planning is inconsistent with D. 12-04-046.

[8] Specifically, utilities are subject to a Net Natural Gas Compliance Obligation: GHG emissions that would result from full combustion or oxidization of natural gas delivered to end users in California, less the fuel that is delivered to its customers which are covered entities.

Consistency with R.14-03-003

The Commission opened R.14-03-003 in March of 2014 in part to consider natural gas utilities' procurement of GHG compliance instruments. As provided for in the OIR, parties filed opening prehearing conference statements and reply statements on April 10, 2014 and April 17, 2014, respectively. Several parties commented that the natural gas IOUs need Commission authority to procure GHG compliance instruments, and have requested the Commission grant this authority by September 2014.

Based on the record for R.14-03-003, natural gas utilities' ability to procure GHG compliance instruments – and rules regarding procurement – should be determined within this proceeding. The Commission finds that natural gas utilities do not yet have the authority to procure GHG compliance instruments, and R.14-03-003 will develop the appropriate record to consider procurement authority. Updates to PG&E's GHG Procurement Plan that relate to its obligations as a natural gas utility should be addressed in R.14-03-003, and not as part of a GHG Procurement Plan that is part of its electric long-term procurement planning. Approving PG&E's request to procure compliance instruments for natural gas would be premature in this Resolution, given that the Commission is separately considering rules and methods for natural gas GHG compliance in R.14-03-003. To avoid any conflicting direction to the IOUs, the Energy Division defers to this ongoing proceeding to set procurement rules and authority for natural gas utilities.

Discussion Summary

PG&E's proposed updates related to the electric utility side of PG&E's business are consistent with Commission decisions and the Cap-and-Trade Program.

PG&E's proposed updates that expand its GHG obligations and procurement activities to the natural gas side of its business are inconsistent with Commission policy. The Commission recognizes the need for natural gas investor-owned utilities to have the authority to procure GHG compliance instruments. However, there is an open proceeding to address this issue. PG&E shall use R.14-03-003 as a venue to address the rules associated with its GHG compliance obligation as a natural gas utility.

PG&E shall revise and resubmit its GHG Procurement Plan in conformance with this resolution via a Tier 1 Advice Letter no later than 30 days from the

Resolution effective date.

COMMENTS

Public Utilities Code section 311(g)(1) provides that this resolution must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission. Section 311(g)(2) provides that this 30-day period may be reduced or waived upon the stipulation of all parties in the proceeding.

The 30-day comment period for the draft of this resolution was neither waived nor reduced. Accordingly, this draft resolution was mailed to parties for comments on July 24, 2014. No comments were filed.

FINDINGS

1. D. 12-04-046, Ordering Paragraph 9 directed electric utilities to file an Advice Letter to update their Long-Term Procurement Plans to conform with that decision.
2. On December 20, 2013, PG&E submitted Advice Letter 4331-E, proposing to modify the Greenhouse Gas Procurement Plan component of its long term procurement plan. The proposed modifications include PG&E's GHG obligations as a supplier of natural gas; add a GHG purchase limit applicable to natural gas; and reflect current regulatory and market conditions.
3. The Commission opened R.14-03-003 to establish rules and policies necessary for natural gas IOUs to comply with the Cap-and-Trade Program.
4. The proposed updates to PG&E's GHG Procurement Plan related to its business as an electric utility are in compliance with D. 12-04-046 and are reasonable.
5. The proposed updates to PG&E's GHG Procurement Plan related to its business as a natural gas utility are premature given that the Commission is currently considering policies for procurement of GHG compliance instruments for natural gas in an open proceeding; PG&E's request should instead be addressed as part of R.14-03-003.
6. As explained in Confidential Appendix A, PG&E's Direct Compliance Obligation Purchase Limit does not reflect the most recent estimate of PG&E's GHG compliance obligation.

THEREFORE IT IS ORDERED THAT:

1. The request of PG&E to revise its Greenhouse Gas (GHG) Procurement Plan as requested in Advice Letter AL 4331-E is in part approved and in part denied.
2. PG&E shall recalculate its Direct Compliance Obligation Purchase Limit based on the most recent emissions forecast available and update its confidential workpapers accordingly.
3. PG&E shall resubmit its GHG Procurement Plan in conformance with this resolution no later than 30 days from the Resolution effective date. The conformance shall be via a Tier 1 Advice Letter.

This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on August 28, 2014; the following Commissioners voting favorably thereon:

____
PAUL CLANON
Executive Director

Confidential Appendix A

REDACTED